

**REPORT OF
FINANCIAL EXAMINATION**

**CLARKS FORK MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2004**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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June 28, 2005
Booneville, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

CLARKS FORK MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 17780 Sky Line Road, Booneville, Missouri, telephone number (660) 882-7199. This examination began on June 27, 2005, and was concluded on June 28, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Growth and Loss Experience of the Company

Comment: It was recommended the Company adopt a formal written business plan with measurable goals for the Company.

Company Response: The Company has adopted a written business plan.

Current Findings: The Company currently has a written business plan in place.

HISTORY

General

The Company was originally organized on November 15, 1892, as Clarks Fork Farmer Feuer-Unterstützungs-Verein. On February 24, 1915, the Company changed its name to Clarks Fork Farmers Mutual Fire, Lightning and Tornado Insurance Company of Cooper County, Missouri, and was granted a Charter of Incorporation by the Secretary of State. On February 25, 1935, the Company changed its name to Clarks Fork Farmers Mutual Insurance Company of Cooper County. On November 18, 1971, the Company's name was changed to the current name of Clarks Fork Mutual Insurance Company.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is

held on the last Saturday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. Directors receive compensation of \$50 per each meeting attended and the President receives an additional \$150 per month.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Herbert Twenter 8101 M Highway Pilot Grove, Missouri	Insurance Agent	2004-2007
Maryann Schuster 19000 Highway 41 Blackwater, Missouri	Insurance Agent	2002-2005
Ray Schrader 26641 Oerly Drive Wooldridge, Missouri	Insurance Agent/Farmer	2003-2006
David Huecker 5283 T Highway Bunceton, Missouri	Insurance Agent/Farmer	2003-2006
Judith Simmons 7095 Washington Road Otterville, Missouri	Insurance Agent	2002-2005
Robert Ashford 452 West Arrow Marshall, Missouri	Insurance Agent/Realtor	2003-2006

David Lang
11819 Lang Road
Booneville, Missouri

Banker

2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

Herbert Twenter	President
Maryann Schuster	Vice-President
Victoria Simmons	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or Bylaws since the last examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$150,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of

\$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions liability coverage, and no reimbursement is made by the Company.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has five full-time employees and one part-time employee. Full-time employees receive up to three percent Company matching funds in individual retirement accounts and \$125 per month for the cost of purchasing health insurance. Full time employees also receive ten days of sick leave per year and one to three weeks of paid vacation per year, depending on the length of service to the Company. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by thirteen licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are

determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the Company's inspector/adjuster and adjusting services are performed by the inspector/adjuster and the agents.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$2,793,531	\$224,781	\$1,701,078	\$533,552	\$73,329	\$480,093	\$540,371
2,003	2,239,221	38,244	1,426,683	1,047,864	74,049	(4,574)	60,465
2002	2,171,328	30,813	1,174,197	688,248	83,660	34,628	95,383
2001	2,094,018	48,886	1,064,376	1,440,152	96,924	56,851	138,875
2000	1,956,697	50,443	994,881	581,903	91,841	61,926	138,236

At year-end 2004, 3,881 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$ 982,313	\$ 1,053,628	\$ 1,164,269	\$ 1,415,934	\$ 1,653,914
Assumed	12,568	10,748	9,928	10,749	11,164
Ceded	<u>(538,730)</u>	<u>(333,882)</u>	<u>(276,005)</u>	<u>(266,993)</u>	<u>(326,104)</u>
Net	<u>\$ 456,151</u>	<u>\$ 730,494</u>	<u>\$ 898,192</u>	<u>\$ 1,159,690</u>	<u>\$ 1,338,974</u>

Assumed

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company

(MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 4% share in the interests and liabilities of the pool.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The aggregate excess section of the agreement covers fire and wind risks. The Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$1,021,127 and the annual premium paid was \$.3862 per \$1,000 of adjusted gross fire risks in force. Property risks ceded under the agreement are limited to \$500,000 for dwellings, commercial and public property, and livestock, poultry and horse operations, and limited to \$750,000 for farm outbuildings. Risks in excess of these limits may be ceded to the reinsurer on a facultative basis per the agreement provisions. Rates and acceptability of risks ceded under the facultative provisions are determined by the reinsurer on an individual basis.

The agreement also provides for liability risk coverage. The Company cedes 100% of the risk and premium to the reinsurer and receives a 20% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Annual Statement is completed by the Company manager. Lammers & Associates, P.C. performs an annual review of the Company's financial statements.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2004

Bonds (Note 1)	\$ 424,130
Real Estate	177,348
Cash on Deposit (Note 2)	2,086,346
Other Investments (Note 2)	0
Reinsurance Recoverables on Unpaid Losses (Note 3)	81,501
Computer Equipment	3,824
Asset Write-Ins (Note 1)	101,883

Total Assets	\$ 2,875,032
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid (Note 3)	\$ 108,147
Ceded Reinsurance Payable (Note 4)	22,123
Liability Write-Ins (Note 4)	176,012

Total Liabilities	\$ 306,282

Guaranty Fund	\$ 724,500
Other Surplus	1,844,250

Total Surplus	\$ 2,568,750

Total Liabilities and Surplus	\$ 2,875,032
	=====

STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 1,502,628
Reinsurance Commission	43,202
Net Losses Incurred	(434,673)
Other Underwriting Expenses	(641,064)

Net Underwriting Income (Loss)	\$ 470,093

Investment Income	\$ 73,329
Other Income	1,949

Gross Income (Loss)	\$ 545,371
Federal Income Tax	(183,305)

Net Income (Loss)	\$ 362,066
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 2,200,978
Net Income (Loss)	326,066
Prior Year Adjustment	5,706

Policyholders' Surplus, December 31, 2004	\$ 2,568,750
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NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds

The Company reported municipal bonds with a value of \$149,500 in the “Asset Write-Ins” section of the Annual Statement. The balance was reclassified to “Bonds.”

Note 2 – Cash on Deposit

The Company reported certificates of deposit with a balance of \$1,434,665 in the “Other Investments” section of the Annual Statement. The balance was reclassified to “Cash on Deposit.”

Note 3 – Reinsurance Recoverables on Unpaid Losses

The Company reported “Losses Unpaid” net of anticipated reinsurance recoverables on such losses. The estimated reinsurance recoverables of \$81,501 were reclassified from the net “Losses Unpaid” liability to “Reinsurance Recoverable on Unpaid Losses” asset.

Note 4 – Ceded Reinsurance Payable

The Company reported amounts due to the reinsurer of \$22,123 in the “Liability Write-Ins” section of the Annual Statement. The balance was reclassified to “Ceded Reinsurance Payable.”

EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2004 \$ 2,568,750

	Increase in Surplus	Decrease in Surplus	
Bonds	\$ 149,500	\$ 0	
Asset Write-Ins	0	(149,500)	
Cash on Deposit	1,434,665	0	
Other Investments	0	(1,434,665)	
Reinsurance Recoverable	81,501	0	
Losses Unpaid	0	(81,501)	
Ceded Reinsurance Payable	0	(22,123)	
Liability Write-Ins	22,123	0	
	-----	-----	
Total Change	<u>\$ 1,687,789</u>	<u>\$ (1,687,789)</u>	<u>\$ 0</u>
Total Policyholder's Surplus Per Examination, December 31, 2004			<u>\$ 2,568,750</u>

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.


ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Clarks Fork Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires:

May 1, 2008


Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION


The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance

Sworn to and subscribed before me this 16th day of August, 2005.

My commission expires: 03-17-2008


Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008



CLARK'S FORK MUTUAL INSURANCE COMPANY

17780 Sky Line Road
BOONVILLE, MISSOURI
65233

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MO INS DEPT
SEP 28 2005

September 27, 2005

Certificate of Mailing

Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

Attn: Kirk Schmidt, CFE, CPA
Chief Financial Examiner

Dear Mr. Schmidt:

In response to your letter dated August 29, 2005 regarding the Examination Report of our Company.

The Board of Directors' meeting was held on Tuesday, September 20, 2005 and the Report of Financial Examination was reviewed by all directors. The report was accepted and the reclassifications requested will be made. The company's response may be included in the report as a public document.

If you have further questions or comments, please feel free to contact us at the above address or our phone number is 660-882-7199.

Again, we wish to thank the Department and Mr. Shannon Schmoeger, CFE, for the courtesy and assistance shown our company during the examination.

Sincerely,

Herbert Twenter

Herbert Twenter
President

HT/vs